

Message Text

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71

ACTION EB-07

INFO OCT-01 EUR-12 EA-07 IO-13 ISO-00 TRSE-00 XMB-02

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R 091711Z AUG 76

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 4388

INFO AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY BONN

AMEMBASSY TOKYO

USMISSION OECD PARIS

USMISSION EC BRUSSELS

USMISSION GENEVA

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DEPARTMENT PASS TREASURY AND EXPORT-IMPORT BANK

E.O. 11652: GDS

TAGS: EFIN, ETRD, UK

SUBJECT: ECGD'S COST ESCALATION COVERAGE SCHEME

1. TO DATE, ONLY TWO CONTRACTS HAVE BEEN SIGNED WHICH INCLUDE INSURANCE AGAINST COST ESCALATION. BOTH OF THESE WERE EXPORT CREDITS GRANTED TO GENERAL ELECTRIC CORP LTD., ONE FOR A SOUTH AFRICAN PROJECT, THE OTHER A CANADIAN PROJECT. ECGD HAS GIVEN FINAL APPROVAL TO SOME 30 APPLICATIONS FOR THE COVER. BUT WHEN THE FINAL CONTRACTS WERE SIGNED, THE EXPORTERS DECIDED AGAINST INCLUSION OF THE COST INFLATION PROTECTION. ECGD STATES THE COVER WAS EXCLUDED FOR THE FOLLOWING REASONS: (A) WITH THE RECENT DEVALUATION OF STERLING, EXPORTERS WERE ABLE TO INCLUDE FAVORABLE COST ESCALATION CLAUSES IN THE CONTRACTS YET STILL REMAIN COMPETITIVE; (B) WITH THE RATE OF INFLATION BEING REDUCED MORE RAPIDLY THAN ANTICIPATED, MANY FELT THE COVER WAS NOT NEEDED; (C) THE ADDED PREMIUMS FOR THE COST INFLATION COVERAGE ARE QUITE HIGH, AND, FOR THE REASONS

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ABOVE, EXPORTERS WERE NOT WILLING TO PAY THE ADDED COSTS.

2. GIVEN THE REDUCED INTEREST IN THE SCHEME, ECGD THINKS THAT, BASED ON CURRENT AND ANTICIPATED ISSUES OF THE COVER, THE PREMIUMS WILL ENABLE ECGD TO ACTUALLY MAKE A SMALL PROFIT ON THE SCHEME RATHER THAN ENDING UP HAVING TO "SUBSIDIZE" THE PROGRAM. ECGD IN FACT IS CURRENTLY REDUCING THE NUMBER OF STAFF WORKING ON THE PROGRAM.

3. THE ABOVE INFORMATION WAS GIVEN IN CONFIDENCE, PLEASE TREAT ACCORDINGLY.

ARMSTRONG

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NNN

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